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Uruguay Round Heads Into The Final Stretch

When the current round of multilateral trade negotiations under the General Agreement on Tariffs and Trade was launched in late 1986, participants from the United States and Japan had high hopes that the negotiations would produce a set of agreements that would lead to mutually beneficial increases in international trade. While the agenda of the Uruguay Round, named for the country where the talks were initiated, ambitiously encompasses 15 occasionally overlapping sectors, the four-year timetable established at the time seemed, to the uninitiated, more than generous. (For details of the Uruguay Round, see JEI Report No. 25A, June 30, 1989). Now, as the final countdown begins, the goal still is to conclude negotiations by this December, but the timetable is beginning to look inadequate even though various framework agreements have been

time. However, a difference may have emerged recently with respect to strategy. Japanese press reports indicate that the United States and the European Community have offered a joint proposal that, in effect, would lead to the use of a Super 301-type negotiating mechanism against countries that fail to open their markets to foreign-generated services. Tokyo reportedly has reacted negatively to this idea, apparently feeling that the disadvantages stemming from unilateral action as called for under Super 301 outweigh the potential benefits of freer trade in services.

Tokyo also is concerned about the lack of enforcement mechanisms in GATT. In that connection International Trade and Industry Minister Kabun Muto responded enthusiastically in an interview published April 29 in Nihon Keizai Shimbun, the economic daily, to an idea that Ms. Hills had appeared to endorse in an April 16 speech in Dallas, Texas. The proposal, which had been submitted by Canada to Mr. Dunkel a few days earlier, calls for a new body called the World Trade Organization that would have significant powers and be modeled after the International Monetary Fund and other international organizations. (GATT is a series of contractual agreements among the parties but it does not have legal status as an international body.) Mr. Muto called for movement toward the establishment of such an organization by the end of the year. USTR sources indicate that discussion of the proposal should follow the completion of the Uruguay Round. In the past Japan and other countries have complained that Washington has a spotty record of complying with GATT rulings that go against the United States.

In short, as the current MTN talks enter their final months little visible progress is evident, and a number of participants are beginning to express their frustrations publicly. However, to some observers who have noted a lack of interest in the Uruguay Round among the American public and Congress, even the public venting of frustrations is part of the negotiating process. By raising the issue of the implications of failure -- as Ms. Hills did in her Dallas speech -- advocates of the current round hope to increase public pressure in the United States and elsewhere for a successful outcome.

These same observers note that every country has an incentive to cling to a bargaining position as long as possible in the hopes of getting the best possible deal, making progress appear minimal or nonexistent. By this line of reasoning, the Uruguay Round negotiations are almost inevitably an exercise in brinkmanship. In addition, a looming deadline for Washington is the May 1991 expiration of existing "fast-track" negotiating authority that would permit expedited congressional consideration of a new MTN agreement. For its part Tokyo faces the prospect of a renewed emphasis in Washington on bilateral negotiations should the Uruguay Round fail. Both countries share with other GATT participants the danger that the multinational trading regime could be at risk should success in Geneva prove elusive in the next eight months.

Douglas Ostrom

Japan Expanding Middle East Role

Tokyo gradually is increasing its diplomatic activities in the Middle East, signaling a shifting balance between economic and foreign policy priorities in the region. Even though military power remains a key factor in relations among Middle Eastern countries, Japan is finding that its economic

strength gives it growing influence in the region. Among the indications of Tokyo's new position in the international hierarchy are its reported role in facilitating the exchange of views between the United States and Iran and its willingness to become more deeply involved in Israeli-Palestinian issues.

Japan's total 1989 trade with the Middle East and North Africa grew 8.9 percent in dollar terms, from $28.6 billion to $31.1 billion; in the process its regional trade deficit worsened, increasing from $10.4 billion to $14.7 billion (see Table 1). Changes in Japan's trade with nonoil-producing states was uneven, showing some good gains (with Sudan, for example) and some contractions (with Libya and Syria, in particular). The total amount of trade with both Israel and Egypt fell slightly in 1989, although the trade imbalances with these two countries moved in opposite directions. Trade with oil-producing states was up almost across the board, a combination of greater imports of petroleum (see Table 2), higher dollar prices for oil ($16.71 a barrel in 1989 versus $15.60 in 1988) and a weakening yen/dollar exchange rate (Y138.00=$1.00 in 1989 versus Y128.15=$1.00 in 1988).

Table 1: Japan's Trade with the Middle East and North Africa, 1988-89

(in millions of dollars; exports f.o.b., imports c.i.f.)

	1988		1989	
Trading Partner	Exports	Imports	Exports	Imports
Bahrain	$119.4	$307.9	$143.5	$342.2
Egypt	481.6	234.2	472.0	118.9
Ethiopia	65.4	57.8	54.8	55.1
Iran	807.8	1,164.2	922.4	1,792.3
Iraq	406.0	828.5	490.7	1,214.5
Israel	420.4	684.5	317.5	757.9
Jordan	140.1	34.3	66.6	23.5
Kuwait	730.5	1,590.4	670.8	2,338.9
Lebanon	77.7	3.2	71.0	6.2
Libya	601.9	5.6	193.3	0.6
Oman	348.2	1,689.7	334.3	1,530.3
Qatar	172.5	1,139.1	211.2	1,546.0
Saudi Arabia	3,142.2	6,348.2	2,763.2	7,048.3
Sudan	71.4	59.7	97.0	84.7
Syria	204.9	6.9	76.2	4.3
United Arab Emirates	1,286.1	5,323.6	1,296.2	6,051.4
Total	9,076.1	19,477.8	8,180.7	22,915.1

Source: Japan Tariff Association

Japan's ties with Iran are benefiting from the de facto end of the Iran-Iraq war. A major benefit is the amicable settlement of Iranian claims related to the dissolution of a joint effort to rebuild a giant petrochemical plant. Begun over 16 years ago the Bandar Khomeini facility was attacked repeatedly by Iraq, leading the Japanese construction consortium heading the project to pull out even though the plant was nearly complete. The February 8 final disposition

Table 2: Japan's Imports of Crude Oil by Country, 1988-89

(in thousands of kiloliters)

Supplier	1988	1989
United Arab Emirates	37,814	42,770
Saudi Arabia	27,942	27,391
Indonesia	26,347	26,552
Iran	10,970	16,991
China	15,673	14,483
Oman	17,098	14,783
Iraq	9,966	12,578
Qatar	10,255	12,359
Gulf Neutral Zone	8,200	11,559
Kuwait	8,124	9,670
Mexico	10,178	9,613
Malaysia	4,638	4,735
Brunei	2,696	2,064
Other	3,950	4,143
Total	193,851	209,691

Source: Petroleum Association of Japan

of Iran's claims with a payment of approximately Y130 billion ($866.7 million at Y150=$1.00) opened the way for a private investment mission and official talks with Teheran in March on increasing Japanese foreign aid. The investment mission sponsored by Keidanren (Japan Federation of Economic Organizations) brought vice presidents and senior managers from over 20 Japanese companies to Iran -- the first such mission in nearly 20 years. The Ministry of Foreign Affairs reported progress on extending technical assistance in agriculture and joint oil exploration projects. Talks stalled, however, over a plan to construct a new airport.

Tokyo's willingness to help Iran rebuild its war-torn economy has apparently paid off in the diplomatic arena. Former Ambassador to Jordan Makoto Watanabe, who now heads the Mideast and African affairs division within the Foreign Ministry, reportedly has been a channel for the exchange of views between Washington and Teheran. While Mr. Watanabe denies any role in discussions about the American hostages held by pro-Iranian groups in Lebanon, his efforts to improve overall U.S.-Iran ties at least have helped build some level of trust between the two antagonists. Tokyo's willingness to serve as more than just a communications conduit has received praise from the State Department and generated U.S. expectations of greater Japanese initiatives in areas not directly related to commercial interests.

One such area is the complex question of Palestinian-Israeli relations. Since 1988 Tokyo has made overtures directly to both Israel and the Palestine Liberation Organization. A November 1989 meeting between Israeli and Japanese foreign ministers produced an agreement to establish a consultation mechanism on Mideast issues, a much more sound arrangement than the infrequent official visits of the past (see JEI Report No. 45B, December 1, 1989). Following up on

an unofficial October 1989 visit to Japan by PLO chairman Yasir Arafat, the head of the PLO's Economic Affairs and Planning Department held a working-level meeting in Tokyo with Foreign Ministry officials April 24. Ahmed Abu Al'a urged Japan to deal directly with Palestinian institutions in terms of aid, trade and diplomatic relations, bypassing Israel entirely. Tokyo pledged humanitarian help through both bilateral and multilateral channels and assistance to the ongoing peace process but did not provide any specifics.

Jon Choy

Environment Fund Proposed To Asian Development Bank

Reinforcing the idea that development -- its middle name -- can go hand in hand with environmental concerns, the Asian Development Bank at its May 2-4 meeting in New Delhi, India heard a variety of "green" proposals, foremost of which was an offer from Tokyo for a new environmental preservation fund. Finance Minister Ryutaro Hashimoto proposed that roughly Y600 million ($4 million at Y150=$1.00) of a planned Japanese contribution of about Y8 billion ($53.3 million) to the ADB's special Japan Fund be set aside for environmental projects. The two-year-old fund finances programs chosen by Japan but run by ADB.

ADB, whose largest contributing member is Japan, expects to have a dual environmental preservation/poverty alleviation theme in the coming year, according to its new president, Kimimasa Tarumizu of Japan. Among the proposed tasks is a five-year educational program to familiarize ADB staff with environmental concerns in their areas of expertise.

Although environmentalists may welcome the additional funds, they are wary about whether such monies truly preserve natural resources or enhance sustainable development. Richard Forrest of the National Wildlife Federation critically described in a November 1989 report one ADB dam-building project, which also had the financial support of Tokyo's Overseas Economic Cooperation Fund and Japan's private sector. The 1982-85 construction of a 92-megawatt hydroelectric dam in Malaysia affected a native tribe of 3,000 people and submerged 21,000 acres of tropical rainforest. While Mr. Forrest acknowledged that the project was not as bad as some developments, he criticized a Japanese review that praised the project for "raising the living standards of the local inhabitants and preserving forest resources" but ignored the cost to the relocated people.

Mr. Forrest's report, Japanese Economic Assistance and the Environment: The Need for Reform, suggested: ". . . what seems needed from Japan is not funding for more projects, but aid of a very different kind, with much greater efforts to ensure that projects are environmentally and socially sound in their implementation." As indicated by ADB's intent to train staff to incorporate environmental considerations in their projects and Japan's adoption of new environmental guidelines for foreign aid (see JEI Report No. 10A, March 9, 1990), such advice is receiving serious consideration. Evidence of just how serious can be found in Japan's proposed FY 1990 budget, which roughly triples funding for both environmental foreign aid and environmental impact assessments (see Table 1). A further breakdown (see Table 2) indicates that some of this money will go toward sustainable development in developing countries; other funds will be used to address global environmental conservation measures, such as those associated with global climate change.

Table 1: Proposed FY 1990 General Account Expenditures for Environmental Measures

(in billions of yen and millions of dollars*)

Overview	Initial FY 1989 Budget (yen)	(dollars)	Proposed FY 1990 Budget (yen)	(dollars)	Percent Change in Yen
General Expenditures	Y44.1	$294.0	Y60.0	$400.0	35.9%
Satellite and Other Research	25.9	172.7	21.9	146.0	-15.2
Energy Programs	354.7	2,364.7	369.3	2,462.0	4.1
Miscellaneous	0.9	6.0	1.0	6.7	16.2
Total	425.6	2,837.4	452.3	3,014.7	6.3
Specifics					
International Treaty Coordination	4.9	32.7	6.4	42.7	31.1
Monitoring and Research	60.7	404.7	60.2	401.3	-0.9
Technology Development and Transfer	358.7	2,391.3	381.5	2,543.3	6.4
Environmental ODA	0.5	3.3	1.4	9.3	204.2
Environmental Impact Assessment	0.7	4.7	2.6	17.3	263.6
Public Education	0.1	0.7	0.2	1.3	34.7
Total	425.6	2,837.4	452.3	3,015.2	6.3

Table 2: Proposed FY 1990 Environment Agency Budget for International Conservation

(in billions of yen and millions of dollars*)

Project	Initial FY 1989 Budget (yen)	(dollars)	Proposed FY 1990 Budget (yen)	(dollars)	Percent Change in Yen
International Organizations	Y6.9	$46.0	Y7.9	$52.7	14.5%
International Aid for Sustainable Development	6.3	42.0	9.1	60.7	44.4
Developing Country Environmental Conservation	---	---	1.9	12.7	---
International Aid for Flora and Fauna in Third World	10.6	70.7	13.1	87.3	23.6
Total	23.8	158.7	32.0	213.3	34.5
Of which ODA:	10.0	66.7	18.5	123.3	85.0

*Converted into dollars at Y150=$1.00.

Source for Tables 1 and 2: Environment Agency

As Japan pushes toward fulfilling its 1988 commitment made at the Toronto economic summit to disburse roughly Y300 billion ($2 billion at Y150=$1.00) for environmental foreign aid over the following three years, environmentalists will be looking for quality as much as quantity. Never known to harbor a bureaucracy that has thrown money at a problem, Tokyo will find that neither can it simply fund multilateral organizations that might inadequately oversee environmental projects. As its economic and political stature grows in organizations such as ADB, so does the weight of Japan's responsibilities.

Pat Murdo

Electoral Reforms Proposed In Japan

A nongovernmental advisory body recommended April 26 that the electoral system for the House of Representatives be based on a mix of single-seat constituencies and proportional representation. The 27-member Election System Council proposed that the number of seats in the lower house be reduced from 512 to 501; of these, 301 would be single-seat districts, while the remainder would be determined by proportional representation. This and related reforms are designed to promote elections based primarily on policy differences among political parties and candidates. They also would facilitate the transfer of power from one party to another, the panel maintained.

Japan's current electoral system for the lower house features more than one representative (usually three to five) per district -- an approach that often pits members of the same party in exorbitantly expensive campaigns against each other for the slots. Some political analysts, in fact, attribute last year's Recruit Co., Ltd. influence-peddling scandal to the money-centered nature of Japanese politics (see JEI Report No. 10A, March 10, 1989). Thus, since his election in August 1989, Prime Minister Toshiki Kaifu has pledged to enact political reforms as a means of restoring the public's faith in Japanese politics in general and in the ruling Liberal Democratic Party in particular.

Although the overriding goal of political reform is to improve the efficiency and the transparency of the election system, the transition may not be easy, judging by the seemingly complex nature of the council's proposals and the reactions of both opposition and ruling party members. For example, under the panel's proposed proportional representation system, the country would be divided into 11 blocks from which 200 winners would be selected from lists of candidates backed by each of the political parties in proportion to the number of votes garnered by each party. This contrasts with the current multiseat system wherein out of a slate of any number of candidates the top three to five vote-getters win the seats (regardless of party affiliation). Under the proposed reform candidates could run in both the single-seat contests as well as place themselves in contention for seats awarded on a proportional basis.

Concerning the single-seat contests, the council urged that the disparity in the relative value of each constituent's vote be narrowed to a two-to-one ratio rather than the current discrepancy of more than three to one. This apparently is aimed at addressing a current phenomenon wherein candidates in certain rural districts can be elected with less than one-third the number of votes required to elect a candidate in a more populous urban district. The council also recommended that an independent organization be established to